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21 April 1954

Chief of Station, Guatemala  
LINCOLN

K-Program  
Political-Economic Views

Attached is a draft of political-economic views to be expressed during K-Program. Please note that these views are merely tentative and are intended as guidance for Graham L. PAGE.

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JCD/JTN/eaf  
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Attachment

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DRAFT

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*Prepared by Nutting*

MEMORANDUM FOR: C/P

SUBJECT : Political-Economic Views to be Expressed During E-Program

I. Political

The primary interest of the United States in Guatemala. Specifically, the United States cannot and will not tolerate either the near-domination or domination of Guatemala by an indigenous Communist Party subservient to International Communism. Nor does the United States accept any claims that there is now or can be in Guatemala a brand of "national" Communism. The United States will not accept even a Titoist solution in Guatemala. As far as American interests are concerned, Titoism in Europe is one thing and Titoism on its front doorstep is quite another. Furthermore, there is no evidence nor is there likely to be any that a Guatemalan political leader of sufficient stature in the Marxist orbit could be found who could effectively muster the independents required for Titoism. In a word, Communism and Titoism for Guatemala are out.

It is desired that the Communist Party in Guatemala be outlawed. An immediate executive decree, to be followed by ordinary legislation and then by a constitutional amendment are desired. The possible objection that outlawing the Communist Party will only serve to drive it underground and thus make it more difficult to detect can be easily dismissed. Any objection to the effect that the United States does not outlaw the Communist Party should be quickly countered with the observation that in the United States the Communist Party has not secured control of the machinery of the government. In amplification of the request that the Communist Party be outlawed, it may usefully be argued that Communism has no genuine indigenous base in Guatemala, such as it does have

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in more highly industrialized countries, but is in every sense of the word a foreign importation, seized upon by genuinely estranged citizens of Guatemala. Communism and Communists in Guatemala are freak occurrences which can be reduced by legal interdiction, backed by the authority of the state.

It is especially desired to avoid turning Guatemala into a battleground of Communist and anti-Communist forces. Prolonged political and civil conflict, polarized around the extremes of Communism and anti-Communism, can only hurt Guatemala and keep alive a constant threat to the Hemisphere. Therefore, it will be essential to take stern and conclusive steps to end the danger of Communism in Guatemala. To this end, it is desired to provide for the physical disposition of the leading members of the Communist Party, both in its central headquarters and in all its provincial organizational branches. It is believed that short, dramatic surgery will be the most effective long-run cure. In addition, this will set an example to Communists in neighboring countries that will keep them from making future attempts against Guatemala and may substantially reduce their effectiveness in their own countries. It is time to put a stop to the woolly-headed notion that only "social reforms" can eradicate Communism; the Communist movement, so largely founded on force and subversion, can also be effectively combatted by the application of force.

The foregoing is not to be interpreted to mean that economic and political and cultural progress are hereby to be abandoned as weapons against Communism. On the contrary, as will be seen later on, these anti-Communist weapons are to be vigorously and effectively employed in the consolidation period of the new Guatemala. The point to be made here is, however, that a combination of force and reason affords better security than either method alone. As regards the pro-government "revolutionary" parties, actual Communist infiltrators of them must be disposed of in the same manner as the top functionaries of the Communist Party itself. The merely pro-Communist leaders of these parties should be punished

by exile or imprisonment, but should receive noticeably less stern retribution than the Communists themselves, so that there may be no confusion as to the anti-Communist character of the new regime.

On the other hand, this severity must be counterbalanced by generosity to the lesser breed of pro-Communists. Swift retribution should be meted out to a small, compact band of the guilty and equally swift pardon and rehabilitation must be granted to the great majority of political and semi-political figures, as well as to the population at large. Nothing can contaminate a new regime more than a long, drawn-out process of investigation of guilt. Surgery, not complex medication, is the best means to a new start.

## II. The New Regime

A period of centralized emergency rule, not exceeding six months, is foreseen. The stability that depends on as broad a popular base and on as settled conditions as possible should be attained at the earliest possible moment.

The progress thus far made toward enlistment of popular participation in the governmental process should be expanded. However, it would be unrealistic to attempt to apply completely democratic methods and political standards in a country that has neither the literacy rate nor the social structure essential for classical democracy. Premature extension of democratic privileges and responsibilities to a people still accustomed to patriarchal methods can only be harmful. Thus, a judicious combination of authority and liberty will have to govern the political system.

The keynote of the new regime must be stability combined with progress, and it is axiomatic that stability can only be attained by progress because human desires are constantly expanding. It is believed that the best safeguards of political stability are greater education, expanded prosperity and all the rewards and satisfactions for the people that eliminate discontent with the political

leadership. Special attention must be given to the most talented individuals in every walk of life so that they may realize their intellectual potential, their material desires and other aspirations; if this is not done, the gifted people will naturally seek an avenue of satisfaction in political upheaval.

Until such time as a unified and literate electorate can itself exercise restraints on the government, a maximum effort must be made to build ~~in~~ safeguards of stability into the structure of the new regime itself. That is, the executive power, without being paralyzed, must be sufficiently divided in order to provide inner balance. While this at first sight may seem to be a factor making for instability, it actually has a protective aspect, because it prevents the capture of the center of power by a single hostile blow. Pluralized power, if the elements of the coalition can cooperate, is the most stable and secure because it creates numerous groups dedicated not only to their own defense but also to the defense of the common interest.

Thus, the independent judiciary must be re-established and made inviolate. Provisions against the summary dismissal of judges, such as occurred in the recent conflict over the agrarian law, must be made. If political parties cannot solicit sufficient funds from the electorate, they should at least be made free of the benevolence of the executive; it may be advisable to establish a fund, to be apportioned among the political parties, by congressional action. Likewise, the unions must be made financially independent of executive whim. The same thing holds true for the press. As previously stated, where subsidies are needed for political groups, a means should be found for supplying them from an impartial account, rather than through the executive.

The army will obviously be an important factor in political stability. The inner stability of the army can probably best be assured by fair and adequate treatment of its officer and non-commissioned officer personnel, plus the supply

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of good and modern equipment. The <sup>d</sup>ajudication of land ~~per~~ proportioned to the length and quality of military service should be encouraged. A more highly developed system of army schooling, particularly in the service corps, should permit officers and non-commissioned officers to make the transition from military to civilian life when they so desire.

Beyond the safeguards built into the army, it will probably prove advisable to divide control of the army between the executive and the congress. Without wishing to copy any foreign models, it does seem desirable to repose the command ~~position~~ function over the army in the executive, but to leave to the congress the authority for financial allocations for military purposes.

These suggested steps serve to divide somewhat the central authority and to prepare for the further pluralization of power in accordance with increasing democratization of the country.

It will be useful, also, to alter the system of appointing departmental governors by the central authority. Local choice of governors, at first subject to confirmation by the central government, and soon thereafter based only on local elections would seem to be a desirable development. In this way, there would be created regional counterbalancing forces against the excessive centralization in the capital. These regional associations of interest could make for progressive stability.

The constitution, in its main aspects, is an adequate and useful one.

### III. General Economics

Generally speaking, we are interested in a broad and swift upward development of the economy. It is well known that the raising of the level of consumer consumption, the expansion of productive facilities and the general augmentation of prosperity is not only a good deterrent toward Communism<sup>nism</sup>, but also an effective method of producing general political stability. It goes without saying that the pre-eminent reason for our desire for prosperity is the protection and expansion of human and social values.

The general scheme of economic development proposed by the International Bank for Reconstruction and Development is sound and is known by competent Guatemalans to be sound. It outlines the efficient and methodical approach to national development and prosperity. Particular importance should be attached to the recommendations of the Bank on taxation.

It is realized, however, that these recommendations of the Bank have not been followed in the past and are not likely to be followed in toto by any future regime. The difficulty, we know, is that the Bank's plan presupposes certain political conditions which do not actually exist; if these political conditions existed, the Bank's plan would probably not be necessary. In a sense, the plan of the Bank attempts to square the circle.

A new departure in the field of development might be tried. There is increasing recognition in American and other banking circles that the economic development of countries such as Guatemala cannot be undertaken and financed under strictly economic criteria. We realize that there must necessarily be a certain wastage of funds because of local political conditions. We are prepared to underwrite this wastage. What we propose is, however, that a maximum effort be made to separate and keep clearly distinct political and economic expenditures.

That is, for example, if the new government feels it necessary, for political reasons, to create a series of economically unjustifiable jobs or to build an industrial plant that cannot possibly be commercially profitable, the sums advanced against these non-economic expenditures should be separately budgeted under a political account. On the other hand, the funds that are used for such economically sound and profitable enterprises as those recommended by the I.B.R.D. should be kept strictly in their own account. What so often happens in countries like Guatemala is that the political and economic expenditures, under a development plan, become hopelessly intermingled, so that the political ends are not clearly served and the economic ends are dissipated. But if we switch to a system of honest bookkeeping, where we plainly designate that some funds are for political show and others are for ~~genuinely~~ economic activities, we can serve both ends more effectively. It would then be desirable to apply genuinely political criteria to economically unjustifiable efforts and to keep the truly economic efforts strictly in the hands of technical specialists, undisturbed by politicians.

The question arises as to the relative size of the political and economic expenditures. We would think that the political account should not be higher than a third of the economic, and preferably lower. We would be prepared to revise our estimates of what Guatemala could legitimately borrow abroad, or receive in the form of aid, upward to the extent of the political account.

As far as direct assistance from the United States is concerned, some will undoubtedly be forthcoming. It should be remembered that shortly after the Communists were defeated in Iran, the Iranian Government received generous assistance. Undoubtedly, the disappearance of the Communist regime from Guatemala will leave behind a certain economic and financial chaos which must be rectified by American aid.

Probably the most effective and useful form of such aid would be on a quid, pro quo basis, with America matching dollar for dollar increases in internal revenue that the new Guatemalan regime was able to arrange. That is, if the new Guatemalan regime manages to raise an additional million quetzales in taxation, by re-assessing property values, or imposing an income tax or raising the coffee tax, then the United States would probably be prepared to extend an equivalent amount in the form of direct aid or loans. In the case of the temporary relief that the United States would probably grant shortly after the installation of the new regime, the United States might properly expect that its assistance would be matched at a later date by such increases in the Guatemalan internal revenue.

In the implementation of agricultural and industrial development of Guatemala, technicians, either American or drawn from other South American countries, can certainly be made available and can be financed by the United States. We believe that extreme care should be devoted to the selection of these individuals, so that they are not only technically competent but are personally acceptable to the Guatemalans with whom they ~~must~~ must deal. It will certainly be the prerogative of the competent Guatemalan authorities to reject technicians whose personal attitudes and mannerisms are such as to preclude their being able to put their technical knowledge into effective practice. In the selection of such technical assistance teams, maximum consideration should be given to those areas of development which the Guatemalans particularly favor; there is no intention of imposing on Guatemala what other countries think would be good for Guatemala.

A particular form of development to be vigorously pursued is the creation of light industries in the rural areas, not only in order to provide ~~adequate~~ added purchasing power to the residents of rural areas, but also to make goods available to them at more reasonable prices. For the foreseeable future, the combination of

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agricultural development and light industry seems to be the sensible pattern on which to base Guatemalan national development and prosperity.

#### IV. Foreign Enterprises

This discussion must be kept free of propaganda on both sides and must devote itself to the sober economic realities.

We are not here to preside over the liquidation of American business interests abroad. The United Fruit Company, the IRCA, and the Empresa Electrica represent a part of the American national interest and will be protected by the United States as such. On the other hand, the United States does not expect American companies to enjoy <sup>abroad</sup> ~~abroad~~ immunities and privileges that would make for political instability or social injustice in other countries, because such a condition of course would be harmful to the over-riding American political interest, which in every case is superior to the specific economic interest represented by this or that company.

The fact of the matter is that, as much as the United States needs, for both political and economic reasons, the continuance of its investments abroad, so does Guatemala need the influx of foreign capital. For Guatemala to attempt to revert to an autarchic economy would not only result in economic damage to the country, but it would materially assist political radicalization of a Communist or other variety. There is no real reason why a legitimate accord, satisfying the interests of both, cannot be found between American companies in Guatemala and the Guatemalan Government.

The Government of the United States would like as much as possible to keep out of any negotiations between American enterprises and the Guatemalan Government. This can be facilitated if the Guatemalan Government will take pains to separate its economic demands on foreign companies from the political assaults on the United States that have usually accompanied the economic demands. The more quiet and businesslike the negotiations between the Guatemalan Government and American companies,

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the less the American Government will have to feel or exhibit concern. It is fully realized that the new regime cannot burden itself with a surrender to the foreign companies of the "victories" which the Communists have allegedly won. On the other hand, certain arrangements can surely be made to alleviate the injustices perpetrated by expropriation and deliberately low indemnification for the lands expropriated. The American enterprises have repeatedly recommended that they be more severely taxed and this recommendation should be accepted; some adjustments in the initial tax imposed might compensate for the losses incurred by the companies due to the low indemnity paid for the land. In addition, provision might be made to lease to the United Fruit Company certain lands which it will need for the efficient prosecution of banana production. However, these are all matters of detail which should be ironed out at a conference between the officials of the American companies and representatives of the Guatemalan Government at the earliest possible opportunity. The results of the conference should be such that the new government can actually present to the people two new "victories" : one victory in the form of assurance that foreign companies can continue to operate in Guatemala and thus benefit the national economy and another "victory" in the form of new taxes, etc., on the companies.

Another point: The United States, which has set up many public corporations in competition with private interests, has no objection to the creation by Guatemala of rival companies and enterprises to the American companies presently operating in Guatemala. Nor is there any reason why American grant aid cannot be used for the formation of such competitive enterprises. What the United States will not do, of course, is to furnish funds that can be used for the expulsion and destruction of the American companies operating in Guatemala.

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The regulation of relations between the Guatemalan Government and the private companies actually centers on a very simple principle: neither party should exploit the other, but their relations should be established under duly accepted legal principles.

V.

V. The Partition of Power

RUFUS is the man and there will be no deviation from that. Any criticisms or doubts of him pale before the fact that he now has both the manpower and the material to accomplish the job. He also has the reputation of being the leader of the popular opposition to an extent that no one else has. For the sake of a real change in the country, the type of transformation that RUFUS represents is essential. A mere palace coup will not do.

RUFUS will conduct himself in such a manner as to preclude any charges that he has been an invader or an interventionist. Furthermore, the manner in which RUFUS is operating leaves him completely free of any commitments except one: that Communist strength in Guatemala be liquidated.

In accordance with the foregoing, it is obviously up to RUFUS to choose his associates in his efforts. However, it is perfectly clear and has been so stated by RUFUS that he will justly and properly reward those who ~~ht~~ help him and those who are loyal to him/ in the effort. It is also known that RUFUS is sufficiently aware of the magnitude of his task, both before and after victory, that he will not reject the counsel and prestige of anyone whose integrity is beyond dispute. The precise allocation of honors and functions belongs to RUFUS, but it can be stated, even at this juncture, that he plans to be generous.

In addition, it should be observed that RUFUS will be operating with considerable technical assistance. He has the humility and the decency to rely on advice, and his present advisors have his respect and confidence to a sufficient degree that he would no doubt rely on them for counsel when it comes to the question of whom he shall associate himself with both before and after victory.

It should be emphasized that the victory of RUFUS is inevitable and that preliminary discussions with other men of rank and stature are simply designed to establish as broad an initial base as possible for the RUFUS movement/ and to minimize the upheaval in Guatemala. Anyone who is given an opportunity

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to work with RUFUS, at this late date, should seize upon it as the only possible guarantee for his personal future and as the best possible service he can render in minimizing internal strife in Guatemala.

VI. The Army

It is clear that, after victory, the Guatemalan Army must be modernized and re-equipped.

As far as the supply of American arms after victory is concerned, it may have come to Guatemalan attention that negotiations are presently in progress with El Salvador, Honduras, and Nicaragua for bilateral military aid agreements. It may be a Guatemalan impression that some of these three countries are delaying completion of these agreements. This impression should be immediately corrected. In fact, although appearances are otherwise, the United States has delayed the implementation of these agreements in order to be able to associate a free Guatemala with them. Having become aware of the existence and sincerity of a large anti-Communist clique within the Guatemalan Army, the United States has decided that it does not wish to prejudice the present or future position of this anti-Communist group by making military aid agreements with other countries that could conceivably compel these anti-Communist Army officers to take a nationalistic position that would throw them into the arms of Arbenz and the Communists. However, if the American estimates of anti-Communism in the Guatemalan Armed Forces are proven wrong, then these aid agreements will be completed to the detriment of Guatemala, whereas, as matters stand now, they can await the emergence of a free Guatemala to join in them.

As far as the supply of arms to anti-Communist elements of the Guatemalan Army before the insurrection is concerned, it may be possible to arrange such a supply if trusted Army officers can devise a plan for their reception that will stand expert scrutiny. This delivery must, of course, be unofficial and cannot be accompanied by any relaxation of the official American position against the supply of arms to Guatemala. A detailed plan for the reception of such arms, including the names

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of the officers who would receive them, the ultimate recipients and the security procedures envisaged for the reception and distribution of the arms, would be welcomed at the earliest possible opportunity.

As far as the supply of arms to the Army during the insurrection is concerned, this will definitely be possible ~~as~~ once the loyalty to the anti-Communist cause of given units and given garrisons is firmly established. RUFUS will presumably have the ~~xx~~ means at hand to make such supply possible. It is recommended that inquiries on both this and on the supply of arms before the insurrection be directed to RUFUS through secure channels.

VII. Labor

This discussion, like the discussion of the future position of foreign companies in Guatemala, must be kept free of propaganda.

Basic to any rational discussion is the fact that organized labor in the United States is a powerful instrumentality and that it has a voice in the United States easily commensurate with that of management. With this premise, there is no reason even to entertain any suspicions from Guatemalans to the effect that the United States is against Guatemalan labor. If Guatemalan labor leaders wish to read sinister meanings into the letter sent in February, 1954, by President Meany of the AFOFL to Arbenz, they are at liberty to do so, but they thereby only show either ignorance or hopeless partisan ship.

As far as the basic structure of the Guatemalan labor movement is concerned, its division into an industrial federation, the CGTC, and an agricultural federation, the CMCG, and a loose series of craft unions of the SAMF variety appears basically sound. It is obviously desired, however, that Communist influence be removed from all these unions wherever it exists. This is the only condition that is to be imposed on Guatemalan labor.

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If it would make any recommendations on union matters in Guatemala, United States labor officials would probably recommend that union organization be more completely freed of Government restrictions than it now is. That is, unions should be free to organize even though their leanings are in conflict with those of the government. Furthermore, as long as public subsidies are needed for the unions, they should be made available to the unions from a fund voted by the legislature, and not by executive fiat.

As far as the relations of Guatemalan labor with foreign commercial enterprises are concerned, it must be remembered that foreign enterprises pay wages as least as satisfactory as those of the domestic enterprises. No objection is interposed toward worker-bargaining for even higher wages. It is, however, most forcefully to be pointed out that labor agitation against the expulsion of foreign capital from Guatemala merely deprives Guatemalan workers of earning opportunities and Guatemala in general of a higher level of prosperity.

The American aid that will be given to Guatemala should be locally allocated with maximum participation of Guatemalan labor and labor leaders. As far as the labor code

As far as the labor code goes, it might usefully be modified with a view to removing government restraints from the Guatemalan unions.

Any assistance desired in union organization and in the practice of union management would presumably be cheerfully granted by American labor.

It will be expected that the labor movement break off its ties with the CTAL and the WFTU. Membership in the ICFTU, while not mandatory, would be desired. Membership in the ORIT is expected.